

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

<b>(1) DEPARTMENT</b> Human Resources	<b>(2) MEETING DATE</b> 3/6/2012	<b>(3) CONTACT/PHONE</b> Tami Douglas-Schatz (805) 781-5959	
<b>(4) SUBJECT</b> Submittal of a status report on the implementation of the "Three Point Plan" regarding labor relations strategies, as approved by your Board on October 12, 2010.			
<b>(5) RECOMMENDED ACTION</b> It is recommended that the Board receive and file a status report on the implementation of the "Three Point Plan" regarding labor relations strategies, as approved by your Board on October 12, 2010.			
<b>(6) FUNDING SOURCE(S)</b> N/A	<b>(7) CURRENT YEAR FINANCIAL IMPACT</b> \$9.8 million savings	<b>(8) ANNUAL FINANCIAL IMPACT</b> \$26.7 million ongoing savings	<b>(9) BUDGETED?</b> N/A
<b>(10) AGENDA PLACEMENT</b> <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input checked="" type="checkbox"/> Board Business (Time Est. <u>30 minutes</u> )			
<b>(11) EXECUTED DOCUMENTS</b> <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A		<b>(12) BUDGET ADJUSTMENT REQUIRED?</b> BAR ID Number: N/A <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
<b>(13) OUTLINE AGREEMENT REQUISITION NUMBER (OAR)</b>  N/A		<b>(14) W-9</b> <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
<b>(15) LOCATION MAP</b>  N/A	<b>(16) BUSINESS IMPACT STATEMENT?</b>  No	<b>(17) AGENDA ITEM HISTORY</b>  <input type="checkbox"/> N/A    Date <u>October 12, 2010</u>	
<b>(18) ADMINISTRATIVE OFFICE REVIEW</b>  Emily Jackson			
<b>(19) SUPERVISOR DISTRICT(S)</b> All Districts -			

# County of San Luis Obispo



TO: Board of Supervisors

FROM: Tami Douglas-Schatz, Director of Human Resources

DATE: 3/6/2012

SUBJECT: Submittal of a status report on the implementation of the "Three Point Plan" regarding labor relations strategies, as approved by your Board on October 12, 2010.

## **RECOMMENDATION**

It is recommended that the Board receive and file a status report on the implementation of the "Three Point Plan" regarding labor relations strategies, as approved by your Board on October 12, 2010.

## **DISCUSSION**

In the latter half of 2009, the Labor Relations Program underwent a full analysis to evaluate effectiveness of the program and identify opportunities for efficiencies. Labor costs, comprised of salary, benefit costs and employee pensions, make up approximately 60% of the County's budget which is typical in counties and cities throughout California. The method by which the County spends that 60% of its budget is subject to negotiations and the County is required to adhere to contractual obligations regarding wages, terms and conditions of employment arising out of those negotiations.

Currently, the County of San Luis Obispo has over 2,300 employees. Approximately 1,970 of those 2,300 employees, or 85% of the workforce, are represented by 8 legally recognized employee organizations (unions). While other similarly sized Counties have 3-14 Bargaining Units, San Luis Obispo County (hereinafter referred to as "County") is made up of 23 individual Bargaining Units, which is significant in order to appreciate the accomplishment of implementing the County's strategic plan for the County's Labor Relations Program. Commitments made at the bargaining table have the highest degree of financial significance and impact on the present and ongoing state of the County's budget. In 2010, the law firm of Renne Sloan Holtzman Sakai (RSHS) was selected to perform legal and professional labor relations services for the County. Because of their extensive public labor relations experience and creativity, their work, together with a number of key management employees involved in the negotiation process, enabled the County to successfully achieve all of the Board's initiatives set for the labor relations program. Simultaneously, and intentionally, the services provided by RSHS allowed for the education of internal staff to operate more independently over time and further reduce outside professional consultation costs. In addition to being consistent with best practices, it should be noted that recent successes in the realm of labor relations have affirmed the County's decision to transform the program and utilize a contract negotiator as an ongoing, integral part of the program.

On October 12, 2010, your Board approved a staff report recommending implementation of a "Three Point Plan" regarding labor relations strategies. Due to the nationwide economic crisis, public pension cost control debates, and the ongoing County structural budget deficit, a strategic three point plan was developed to address the following major components of the labor relations program:

1. Establish second tier lower pension benefit plans;
2. Negotiate employee and employer pension cost sharing; and
3. Eliminate contractual formulaic approaches to wage setting.

Below is a summary of our activity in each area:

## **Second tier pension benefit plan**

Similar to the majority of other California public agencies, our goal was to negotiate and implement a lower second tier of pension benefits as a means to long term pension sustainability and provide for future savings in San Luis Obispo County. By the end of 2011, the County successfully implemented second tier pension plans for over 90% of the County's workforce. County staff is currently negotiating with one of the only two remaining employee organizations without a second tier pension plan: The Association of San Luis Obispo County Deputy Sheriffs (ASLOCDS), sworn personnel consisting of approximately 138 employees. The San Luis Obispo County Probation Peace Officers' Association's (SLOCPPOA) contract, which covers approximately 93 employees, is open for negotiations for a second tier in July, 2013.

The County has effectively rolled back pension plans for new employees to the equivalent of those from 10-15 years ago. In these plans, employees will retire with a lower benefit and at a higher age. As an example, miscellaneous bargaining units with a first tier benefit formula of 2% at age 55 based on the single highest year of salary now have a second tier benefit of 2% at age 60 based on the average of the highest three years of salary. Additionally, retiree cost of living adjustments (COLA) have also been limited to a maximum of 2% with no carryover. This compares to the current Tier One retiree COLA of up to 3% a year with a carryover, or provision to "bank" any unused amount to future years where the cost of living may exceed 3%. Lastly, no retiree will receive a pension benefit of more than 90% of the average three highest years of pay in retirement in the second tier plans. By contrast, some tier one retirees may earn up to 100% of their single highest earning year in retirement.

The implementation of tier two pension plans will provide significant future savings to the County while still providing a competitive pension benefit for new employees, with a goal of no negative impact on recruitment and retention. The longer term cost savings are 15% of salary, which, in today's dollars, equates to approximately \$25 million annually. To date, the County has hired 115 new employees into the tier two pension plans, which equates to current annual savings of approximately \$782,000. The full savings of all second tier pension plans should be realized in 20-30 years. For a full listing of the detailed second tier retirement plans, see Attachment "A".

## **Pension cost sharing (50-50 split)**

In negotiating pension rate increases with employee associations, our goal is that the County and employees share equally in the cost of the pension. Equal cost sharing refers to increases in pension costs which have already occurred (since 2007) as well as any future increases. Each January, the Pension Trust annual actuary report assesses the funding condition of the Pension Trust. In the event of changes in actuarial conditions, rate increases may be required to maintain proper funding. Rate increases vary somewhat by bargaining unit due to varying pension benefit levels and represent an ongoing annual expense. Since 2007 there have been two rate increases which have resulted in an overall average increase to County pension costs of approximately 10%. Since that time, various bargaining units have picked up portions of those increases, averaging an approximate 5% increase to employee pension costs. That 5% increase represents an annual savings to the County of approximately \$8.0 million.

All bargaining units are sharing in the pension increases resulting from 2007 and 2010, representing ongoing \$8.0 million cost avoidance to the County. In addition, all Memorandums of Understanding (MOU) identify specific pension sharing of any future pension increases or provide for a contract reopener in order to negotiate the amount of pension sharing. The total pension costs by percentage of payroll are shown in Attachment "B".

## **Removal of all automatic formulaic wage increases**

An important part of the County's evaluation of the Labor Relations Program included a review of the County's prevailing wage ordinance (PWO) and practices. The PWO is as follows:

San Luis Obispo County Municipal Code 2.48.180 - Prevailing wage. In fixing compensation to be paid to persons in the county's employ, the board of supervisors and every other authority authorized to fix salaries or wages, shall provide a percentage change in compensation at least equal to the percentage change in compensation for the same quality of service rendered to persons, governmental agencies, firms or corporations under similar employment. Prevailing salaries or wages shall be determined by negotiations between the county's employer representatives and the recognized employee organization(s). In case such prevailing salaries or wages cannot be agreed to

by parties, the matter may be submitted to a mutually selected arbitrator who shall make advisory recommendations to the negotiation parties. (Ord. 1260 § 4, 1973: amendment adopted by the voters 11/4/84)

The PWO essentially states that County employees shall be compensated equal to that of similar jobs, including private industry, and that wages are ultimately determined through the collective bargaining process. However, the previous implementation of the PWO resulted in contractual, automatic and annual formulaic wage increases, which the County was obligated to comply with regardless of economic conditions and whether or not the increase resulted in a layoff of staff. The County's goal was to re-evaluate the plain language in the PWO, expand market surveys to include private industry, and negotiate wages rather than obligate County funds without regard for economic factors.

The County and its labor consultants developed a new strategy regarding prevailing wage implementation based upon identifying an expanded list of logical comparison organizations for collecting external wage data. Comparison organizations have been identified based upon their demographic and economic similarity, proximity and/or competitive relationship to San Luis Obispo County. New comparisons were identified as a basis of negotiation to ensure that the County is paying within the actual range of prevailing wages. Instead of automatically issuing pay increases based upon the wage survey, the County will utilize survey data as a basis for negotiations.

To date, all bargaining units have committed to \$0 wage increases for at least one year, with many agreeing to multiple year contracts with \$0 wage increases. After revisiting language that previously resulted in contractual annual formulaic wage increases, the County and employee organizations have agreed to bargain over wages rather than rely on these automatic formulas. Every additional 1% increase in salary equates to approximately \$2.25 million annually in County costs. From 2006-2010, an average prevailing wage adjustment of 3.79% was provided to employees as a wage increase as a result of these previously negotiated contractual obligations. Continuation of these formulas using the 3.79% average prevailing wage adjustment would have resulted in an increase of approximately \$8.5 million in annual County costs. As a result of removing these formulaic approaches in negotiated agreements and keeping wages flat, the County has seen a cost avoidance of approximately \$17.0 million (2010 and 2011), contributing to the County's overall fiscal health. This change has a direct impact on pension. When payroll costs rise annually, it not only contributes to the County's structural budget deficit, but it also places a significant strain on the pension plan and increases the odds of unfunded liability. See Attachment "C" for prevailing wage impacts prior to 2010 as compared to contracts implemented since 2010.

#### **OTHER AGENCY INVOLVEMENT**

Labor Management team representatives from the General Services Agency (Helen McCann), Health Agency (Mike Stevens), Social Services Department (Natalie Walter), Public Works Department (John Diodati), Auditor-Controller's Office (Vanessa DeBrum and Jim Erb) and the Human Resources Department staff; Labor Committee participants: Jim Grant, Dan Buckshi, Warren Jensen, Rita Neal, Jeff Hamm, and Gere Sibbach.

#### **FINANCIAL CONSIDERATIONS**

Second Tier Pension: The tier two pension plans for all units will save approximately 15% of salary costs, or \$25 million per year in current year dollars, once all employees reside in the new second tier of benefits. It is anticipated that this savings will be fully realized in 20 to 30 years but some savings will be realized in 8 – 10 years depending on retirement and hiring trends. To date, the County has hired 115 new employees into the tier two pension plans, resulting in annual payroll savings of approximately \$782,000. These savings will continue to increase each year as additional new hires are hired into second tier pension plans.

Pension Cost Sharing: The goal of splitting the 2007 and 2010 pension rate increases was achieved by the end of 2011. Those annual, ongoing savings to the County are approximately \$8.0 million. This cost savings is a direct result of employees picking up more of their pension share and thus reducing the County appropriation to the pension trust.

Elimination of Automatic Wage Increases: MOUs negotiated prior to 2010 which included formulaic approaches to wage setting would have resulted in automatic wage increases were it not for concessions made by Associations through negotiations. These concessions resulted in payroll savings for 2010 and 2011 of approximately \$901,000 and are ongoing cost savings. All agreements negotiated to date remove those automatic formulaic methods and allow for wages to be negotiated. Were those formulas to continue, the County would have expected to see an additional approximate

\$17.0 million increase in payroll costs.

The table below represents actual cost savings and avoided costs that the County has achieved since 2007.

	2007	2008	2009	2010	2011	<i>Total Category Savings (Since 2007)</i>
Second Tier Savings					\$782,105	<b>\$782,105</b>
Concessions Per Contract				\$384,543	\$516,320	<b>\$900,863</b>
Prevailing Wage Avoided (based on 3.79% avg PWA)				\$8,527,500	\$8,527,500	<b>\$17,055,000</b>
*Pension Cost Sharing	\$3,143,343	\$2,574,653	\$638,736	\$1,621,401	No add'l pension increases	<b>\$7,978,132</b>
<b>Total Savings by Year</b>	<b>\$3,143,343</b>	<b>\$2,574,653</b>	<b>\$638,736</b>	<b>\$10,533,444</b>	<b>\$9,825,925</b>	<b>TOTAL ANNUAL COST SAVINGS \$26,716,100</b>

\*Numbers represent incremental annual savings.

## **RESULTS**

The implementation of the three point plan has allowed the County to control the escalating costs associated with its valued workforce. Each of the components of this plan – second tier pensions, pension cost sharing, and prevailing wage implementation – allow the County to address both short term budgetary challenges and long term sustainability. This plan also contributes to a results-oriented, well-governed community.

## **ATTACHMENTS**

1. Attachment A\_Implemented Second Tier Retirement Plans
2. Attachment B\_Total Pension Cost by Percentage of Payroll
3. Attachment C\_Prevailing Wage Impacts